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# Operating Budget Impacts (OBI)

## PURPOSE

Operating budget impacts relate the capital and operating budgets in a form useful for decision-making, by identifying and quantifying the consequences of capital investment. Most capital improvement projects generate future operating budget costs. New or expanded facilities require new and continuing annual costs of their own in addition to the cost of the services and programs provided and, therefore, contribute to the growth of annual operating budgets.

Debt service is the most significant operating budget impact of capital projects and reflects the costs of financing large project expenditures funded by bonds. Approximately ten percent of the current operating budget pays for the debt service requirements of prior CIP decisions. In addition, new facilities add annual expenditure requirements for maintenance, and energy costs for utilities such as heating and lighting. Facilities that are used as sites for programs or service delivery have staffing requirements and may have other program costs, such as vehicles. While most capital projects add to annual operating costs, investment in new buildings or renovations may also result in operating cost savings, as when a new County building replaces leased space or when renovation results in operating efficiencies, such as lower energy consumption. Other new facilities, such as swimming pools, may generate offsetting revenues from program fees, which provide additional government revenues to help support new costs.

All CIP project description forms (PDFs) include a section that identifies knowable operating budget impacts that will be incurred as a result of project implementation during the six-year CIP period. The purpose of assessing and displaying these operating budget impacts is to:

- Project the future operating budget consequences of approving projects in the Recommended CIP during the six-year span of the CIP;
- Provide a quantitative basis for cost decisions relating to the inclusion, scope, or funding schedules of projects in the CIP;
- Provide a basis for prioritization of projects within program areas of the CIP based on comparative operating budget impacts;
- Provide a framework for evaluating alternatives other than CIP proposals for meeting program or service delivery needs;
- Stimulate more precise facility planning within the context of planning multi-year operating budgets;

- Identify foreseeable demands for operating program expansion or service delivery which may result from the inclusion of a particular capital project;
- Display the extent to which identified program needs or approved standards of service delivery drive the County's capital program; and
- Display the relationship between CIP project expenditure schedules and the timing of anticipated new or additional operating budget requirements as a result of project completion.

The impact of prior CIP actions is assumed to be reflected in current operating budget expenditures. This includes debt service for bonds issued to finance project implementation. Also, if a new annual cost is not associated directly with the operation of a facility, but is directly related to service changes, it is not included within operating budget impacts. This is because, if the facility were not approved, the operating budget might still increase as a result of service level changes.

## DISPLAY OF OBI ON PROJECT DESCRIPTION FORMS

The costs displayed in the first year of the six-year program are the incremental costs implied by the CIP project over (or under) the current year's Operating Budget. In this way, OBI displays the impact of proposed CIP projects on the operating budget that is also under review.

While debt service is generally the largest operating budget impact of bond-funded capital projects, it is not identified in individual project description forms for County projects. This is because debt service is incurred only when bonds are issued to finance overall bond-funded expenditures. It is calculated annually on the basis of bonds issued to date and is reviewed and approved as the debt service budget within the annual operating budget. Allocation of General Obligation (G.O.) bond funding to individual projects is reflected on the Funding Schedule of those projects on the project description forms.

The Operating Budget Impact section of specific project description forms identifies the following impacts:

Maintenance - Facility maintenance costs for public buildings are based on maintenance cost experience with different kinds and amounts of space. Maintenance costs include janitorial services, ongoing building and grounds maintenance, and repairs. The estimated impact is first included for the year in which the facility will become operational, with the annual

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cost carried forward for the remaining years of the six-year CIP. Annual maintenance for projects other than buildings is determined by the initiating department based on cost experience.

Energy - Energy costs are distinguished from other utilities (such as telephone and water) in order to assess the costs of electricity and fuels for heating, air conditioning, and other power requirements. In a project for a renovated or expanded facility, there may be an energy cost savings resulting from more efficient systems. Therefore, energy cost impacts may be shown as either positive numbers (representing costs) or negative (representing savings) depending on the project.

Program Costs - Staff - Staff costs are those incurred in the use of the facility: the salaries and benefits of additional County personnel required to open and operate a new facility, such as a library or recreation center. Staff costs are entered for the first year in which the operating budget will have to include the additional personnel costs. If a facility is expanded to include a larger or additional program, only the costs of additional staff for that expansion are included. On the other hand, if a new facility represents a consolidation of two other facilities, for a net decrease in staff requirements from those currently budgeted, the PDF may reflect the net staff savings beginning in the year the consolidated facility is operational.

Staff (Workyears) - This is the actual count of additional (or decreased) workyears required to staff a new facility, beyond those already budgeted by the department(s) using a given facility. If the facility's program will require budgeting six additional workyears in Year 2 of the CIP when the facility opens, that is the number on which the "Program - Staff" cost is based. If four additional staff are to be added in Year 3, then a total of ten workyears is displayed for Year 3 and each of the remaining years of the six-year program.

Program Costs - Other - These include the net increases or decreases in all nonstaff expenses associated with opening a new, expanded, or consolidated facility, such as vehicles, consumables, contracted services, computerization, and any other general operating expenses such as telephones, that can be estimated for the year in which the facility becomes operational. This category is used also to show the annual operating budget payments required for debt costs other than G.O. bonds, such as revenue bonds, as well as lease purchase or other special funding arrangements which require annual operating budget outlays.

Cost Savings - Significant operating budget cost savings occur when a new public building replaces leased space. The current annual (budgeted) lease cost no longer required is an offset savings. If a new building location or consolidation results in reduced requirements for County vehicles, this would also be a cost savings. Cost savings are entered beginning in the year they are anticipated to be achieved; i.e., when the lease cost or

excess vehicle requirement will no longer be in the operating budget. Cost savings are displayed as a negative number.

Offsetting Revenues - Some facilities, notably those for recreation programs, generate revenues from charges for services such as swim or golf course fees. Since revenues are an offset to costs, the estimated revenues from the facility are shown as a negative number.

## **OPERATING BUDGET IMPACTS REVIEW**

The ultimate test of the concept of OBI and its usefulness is the degree to which it can be applied to decisions on particular projects and setting project priorities among the various agency programs of the CIP.

It is recognized that estimates of operating budget impacts far ahead of the completion of a facility are by definition bound to be only rough approximations. Insofar as these estimates are realistic, they will aid the decision process.

OBI is used each year to help calculate future fiscal impacts on operating budgets. While it is important to recognize that future costs can only be estimated, it is also important to recognize that current decisions have impacts on future operating budgets.